

NDTFFR : 2014 UPDATE

ND School Boards Association Annual Convention – Bismarck October 24, 2014

Fay Kopp, Deputy Executive Director - Chief Retirement Officer
ND Retirement & Investment Office (RIO)
ND Teachers' Fund for Retirement (TFFR)

TFFR Plan

- ❑ TFFR is a qualified defined benefit pension plan designed to provide retirement, disability, and death benefits for ND public school educators and certain state teachers.
- ❑ Retirement plans are an important part of the total compensation package and are important in attracting and retaining qualified employees.
- ❑ TFFR plan was originally created in 1913.
Governing laws: NDCC 15-39.1 and NDAC Title 82.
- ❑ Funded by member (teacher) and employer (school district) contributions, and investment earnings.

TFFR Board of Trustees

TFFR benefits program is managed by a 7-member board of trustees who have a fiduciary responsibility to the fund's beneficiaries. The Board consists of 5 active and retired members appointed by the Governor and 2 state officials.

- ▣ **Active School Teachers**

- Mike Gessner, Minot, President
- Kim Franz, Mandan

- ▣ **Active School Administrator**

- Rob Lech, Jamestown

- ▣ **Retired Members**

- Clarence Corneil, Dickinson
- Mel Olson, Fargo

- ▣ **State Officials – Ex officio members**

- Kelly Schmidt, State Treasurer
- Kirsten Baesler, State Superintendent

State Investment Board (SIB)

TFFR investment program is implemented by State Investment Board.

State Officials

- Lt. Governor
Drew Wrigley, Chairman
- State Treasurer
Kelly Schmidt
- State Insurance Comm.
Adam Hamm
- State Land Comm.
Lance Gaebe
- Workforce Safety & Insurance
Cindy Ternes

Pension Representatives

- Mike Gessner (TFFR)
- Rob Lech (TFFR)
- Clarence Corneil (TFFR)

- Tom Trenbeath (PERS)
- Mike Sandal (PERS)
- Yvonne Smith (PERS)

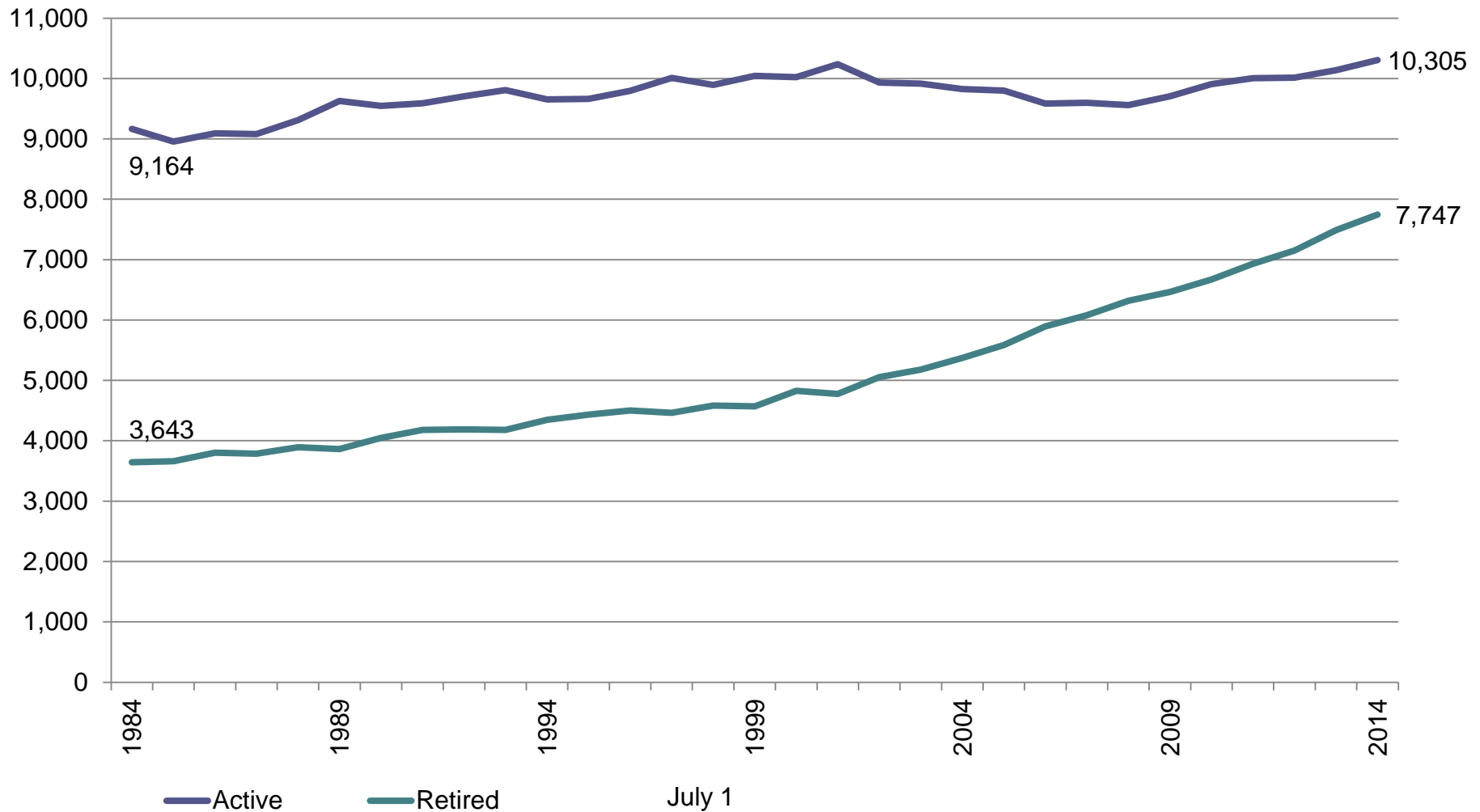
TFFR Background



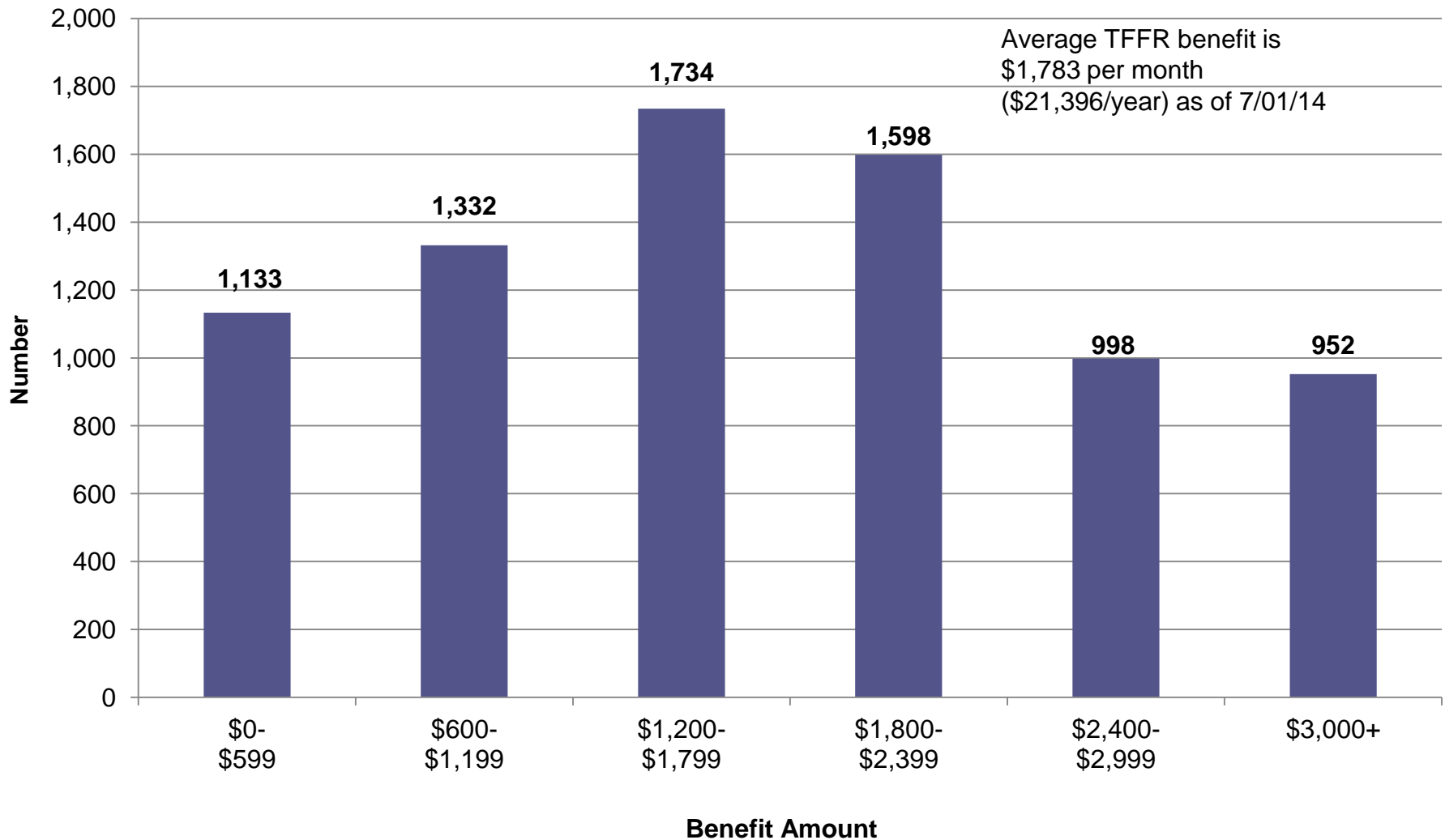
TFFR Participating Employers

▣ School Districts	179	
▣ Special Ed Units	19	
▣ Vocational Centers	5	
▣ Counties	6	
▣ State Agencies/Institutions	5	
▣ Other – Closed groups	<u>2</u>	
2014-15 Total Employers		216

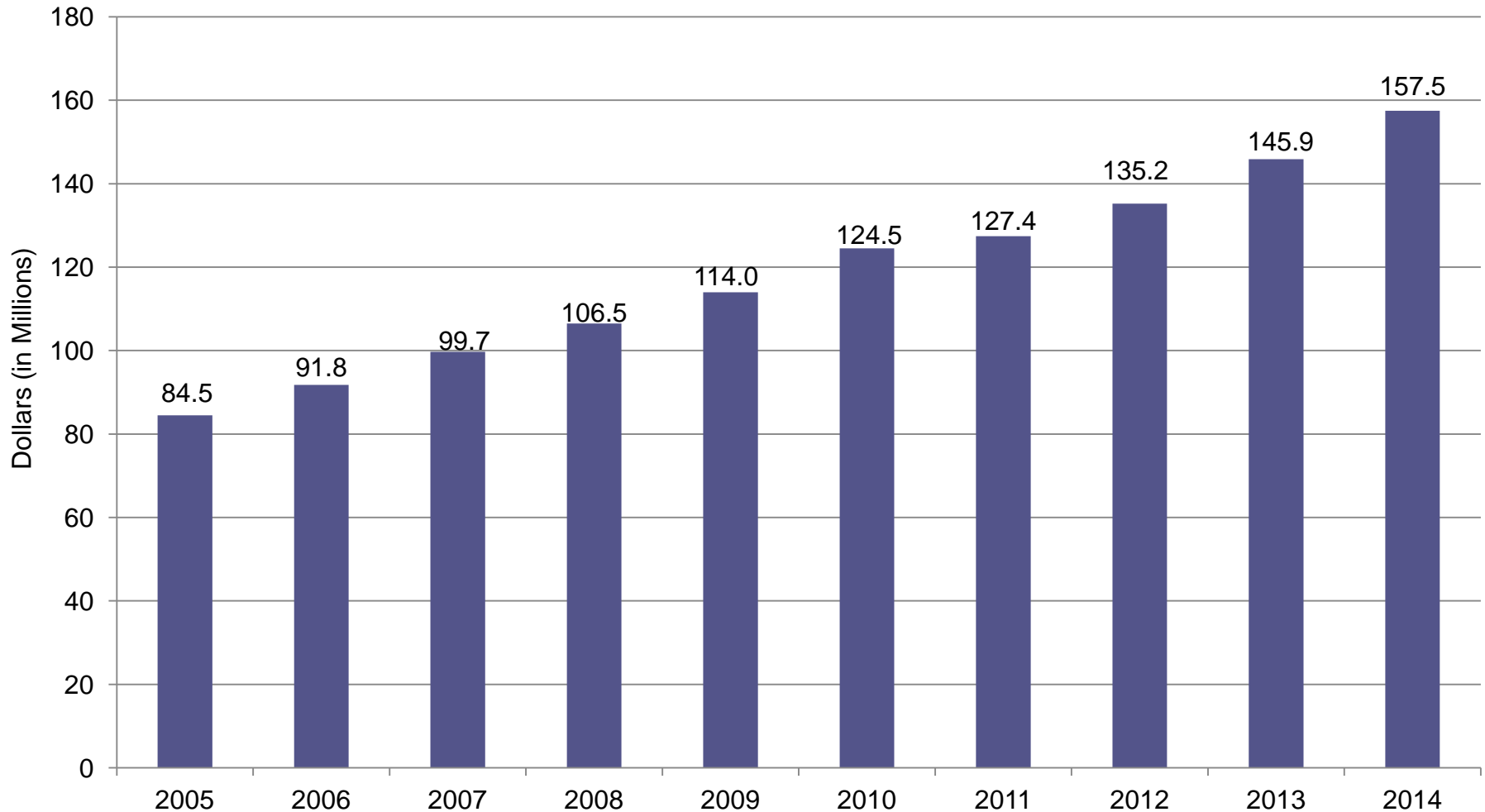
Active and Retired TFFR Members



Monthly TFFR Benefits by Benefit Amount

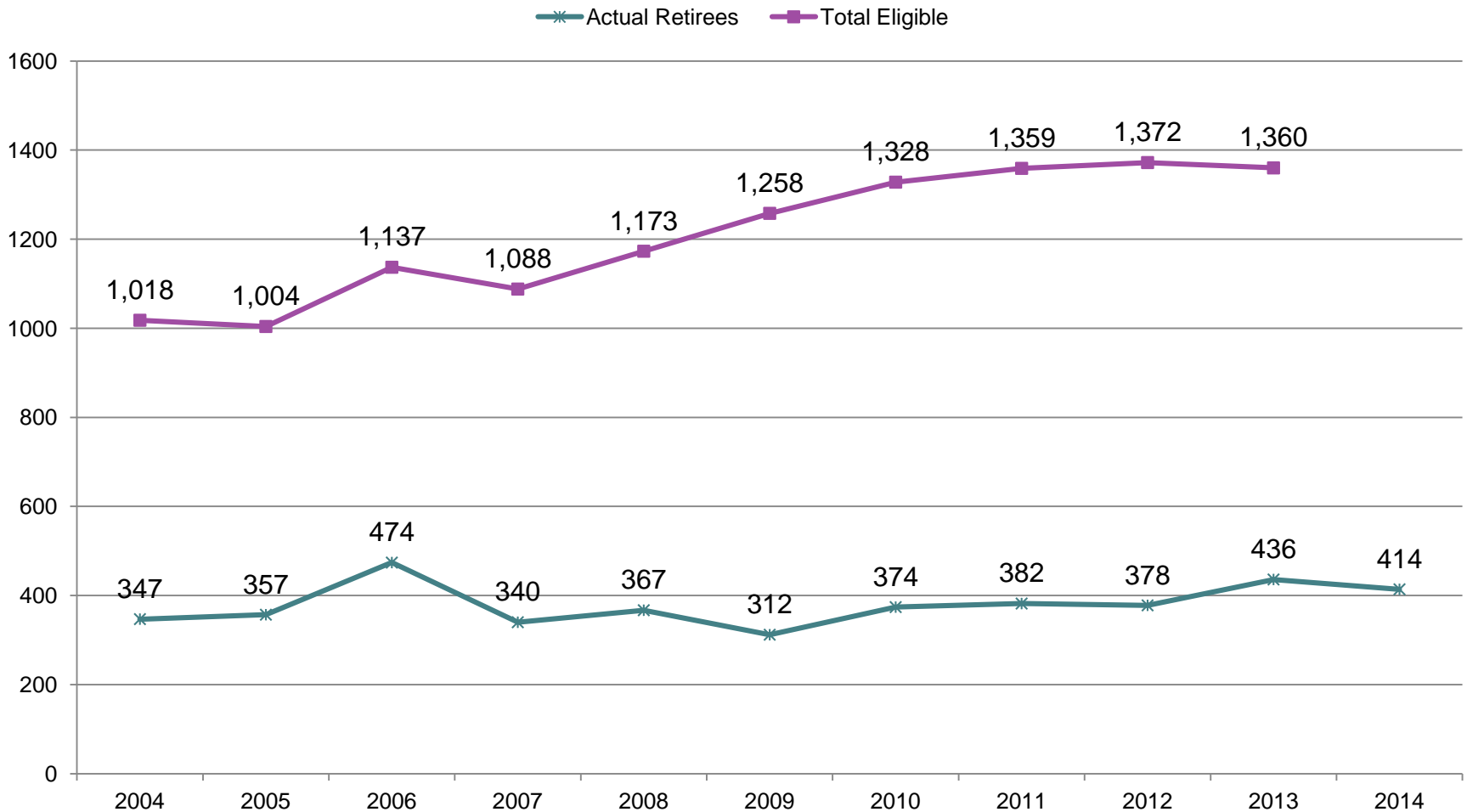


Annual TFFR Pension Benefits Paid



Actual New Retirees and Total Eligible

(as of 1/1/2014)



Summary Retirement Projections

Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 3,500 to 3,900 active members are projected to retire in the next 10 years which averages about 390 per year.

	Members	# Retire		Avg/Yr	
		30%	40%	30%	40%
Teachers and Special Teachers	9,842	3,227	3,542	323	354
Superintendents	133	86	95	9	10
Other Administrators	512	220	245	22	25
Total Active Members	10,487	3,533	3,882	353	388

Note: All retirement projections are estimates only, and based on January 2014 membership data

TFFR Plan Benefits



Summary of TFFR Pension Benefits for Membership Tiers

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Vesting Period	3 years	3 years	5 years
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule of 85	Rule of 90	Rule of 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
x Final average salary (high salaries of career)	3 year FAS	3 year FAS	5 year FAS
x Service Credit	Total Years	Total Years	Total Years
Disability Retirement	Yes	Yes	Yes
Retirement formula multiplier (2%) X FAS X total years			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

Contribution Rates

RATES %	Employer	Member	Total	Increase
1997 – 2008	7.75%	7.75%	15.5%	--
7/1/08	8.25%	7.75%	16.0%	+0.5%
7/1/10	8.75%	7.75%	16.5%	+0.5%
7/1/12	10.75%	9.75%	20.5%	+4.0%
7/1/14	12.75%	11.75%	24.5%	+4.0%

Note: Recent legislation increased contribution rates to improve TFFR funding. Increased rates will be in effect until TFFR reaches 100% funded ratio, then rates will be reduced to 7.75% each.

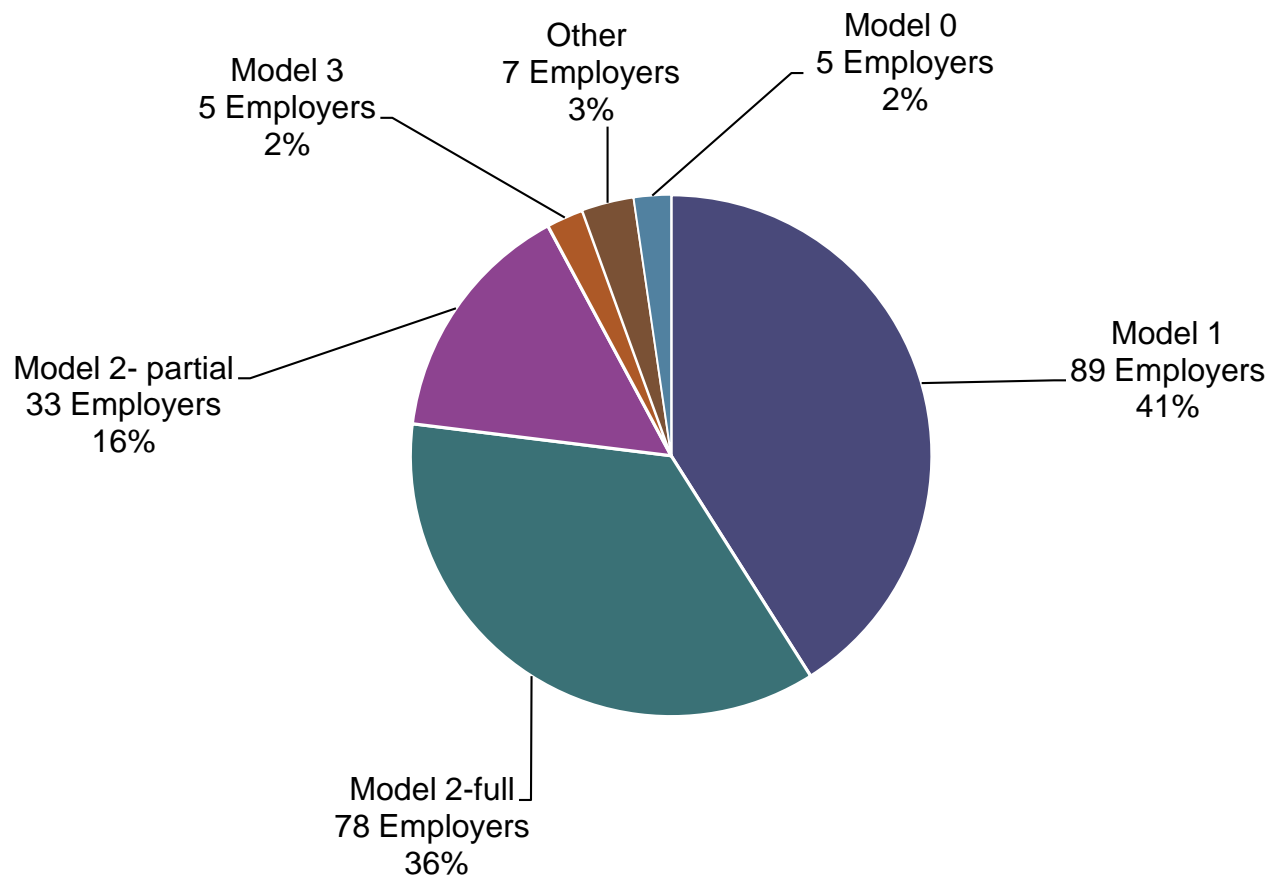


TFFR Employer Payment Plan (EPP) Models

Payment of member contributions on a tax deferred basis can be made by the employer through a: (1) salary reduction or (2) salary supplement.

- **No Model:** Member/employee contribution is paid by employee and remitted by employer as taxed dollars.
- **Model 1:** Member/employee contribution is paid by employee through a salary reduction and remitted by employer as tax deferred dollars.
- **Model 2 All:** Member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars.
- **Model 2 Partial % and Model 3 Partial \$:** A portion of the member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars. The remaining employee contribution is paid by employee and remitted by employer as tax deferred dollars. Model 3 \$ option is no longer available.
- **Other:** Includes state agencies, and closed groups with special provisions.

TFFR Employer Models 2014-15



TFFR Investments



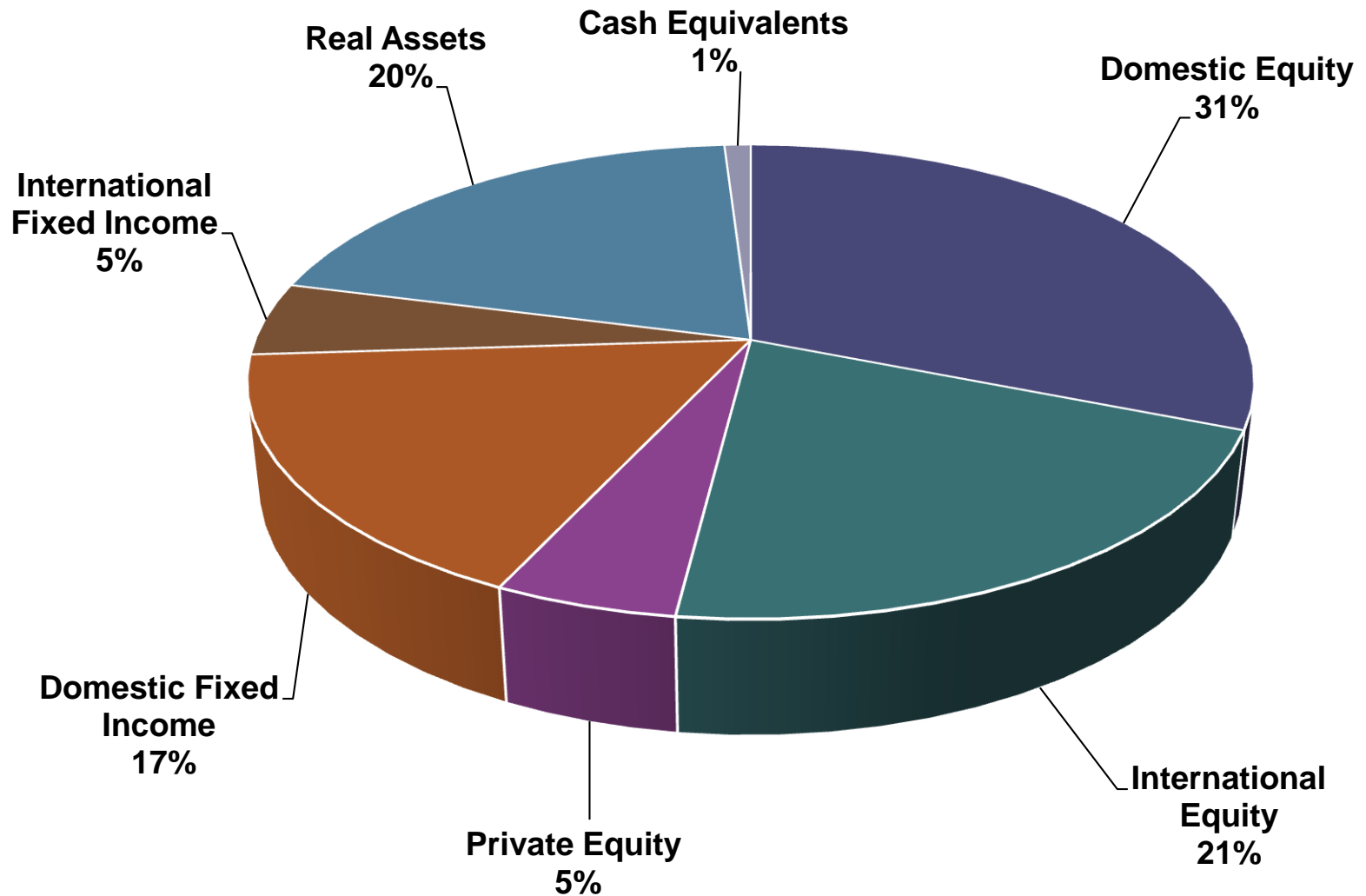
Investment and Funding Goals

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the plan's funding status.

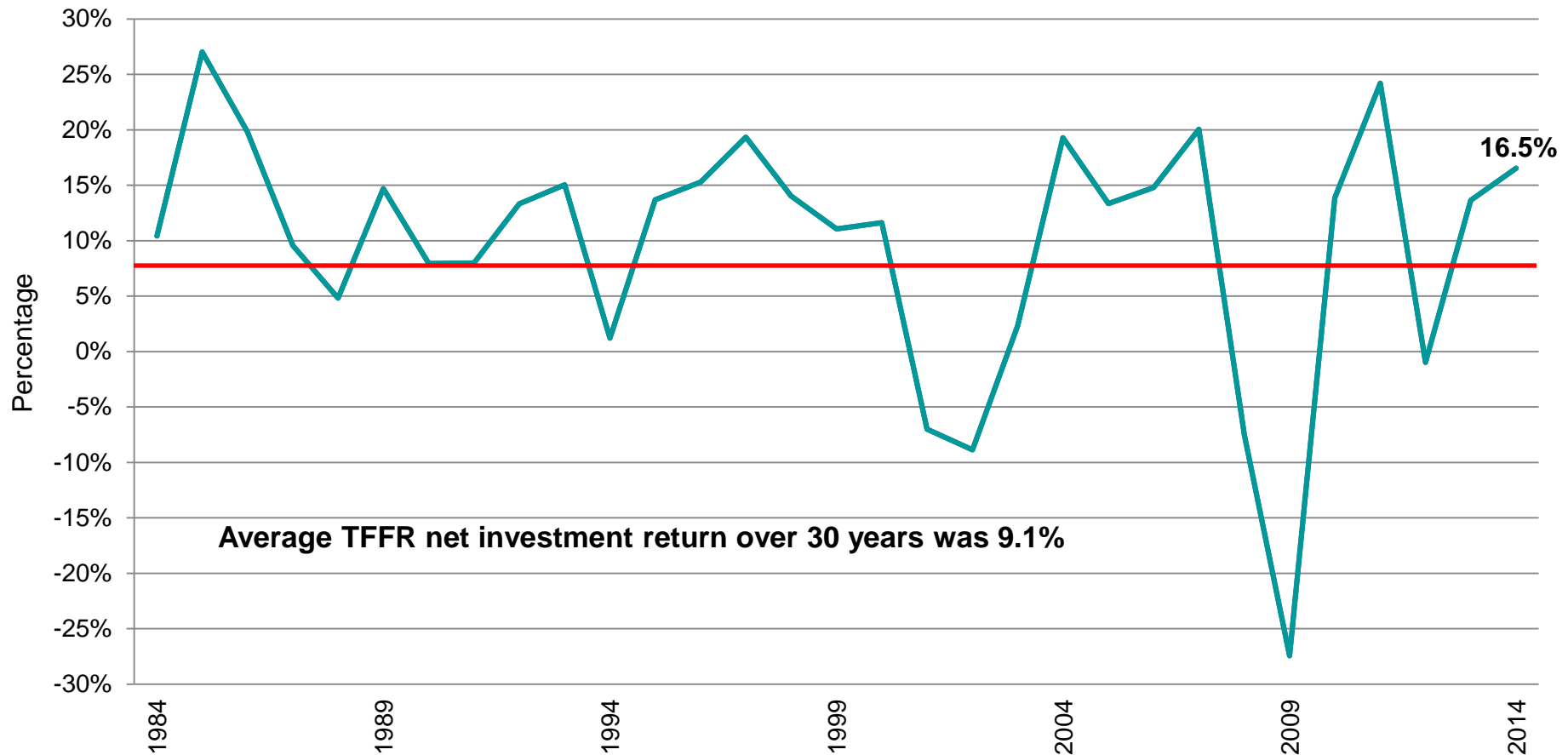
Asset Liability Study

- Asset allocation and investment policy guidelines are determined by TFFR Board, with assistance from SIB Chief Investment Officer.
- Asset Liability study is conducted every 5 years to consider appropriate asset mix for funding TFFR pension liabilities. Most recent Study was completed in Fall 2011.
- TFFR's investment portfolio is divided into three basic categories, defined by their reactions to specific capital market factors:
 - ▣ Equity (growth and capital appreciation)
 - ▣ Fixed income (income, low risk, flight to quality, deflation)
 - ▣ Real assets (inflation, income, diversification)
- TFFR's long term investment return assumption is 8%.

TFFR Asset Allocation

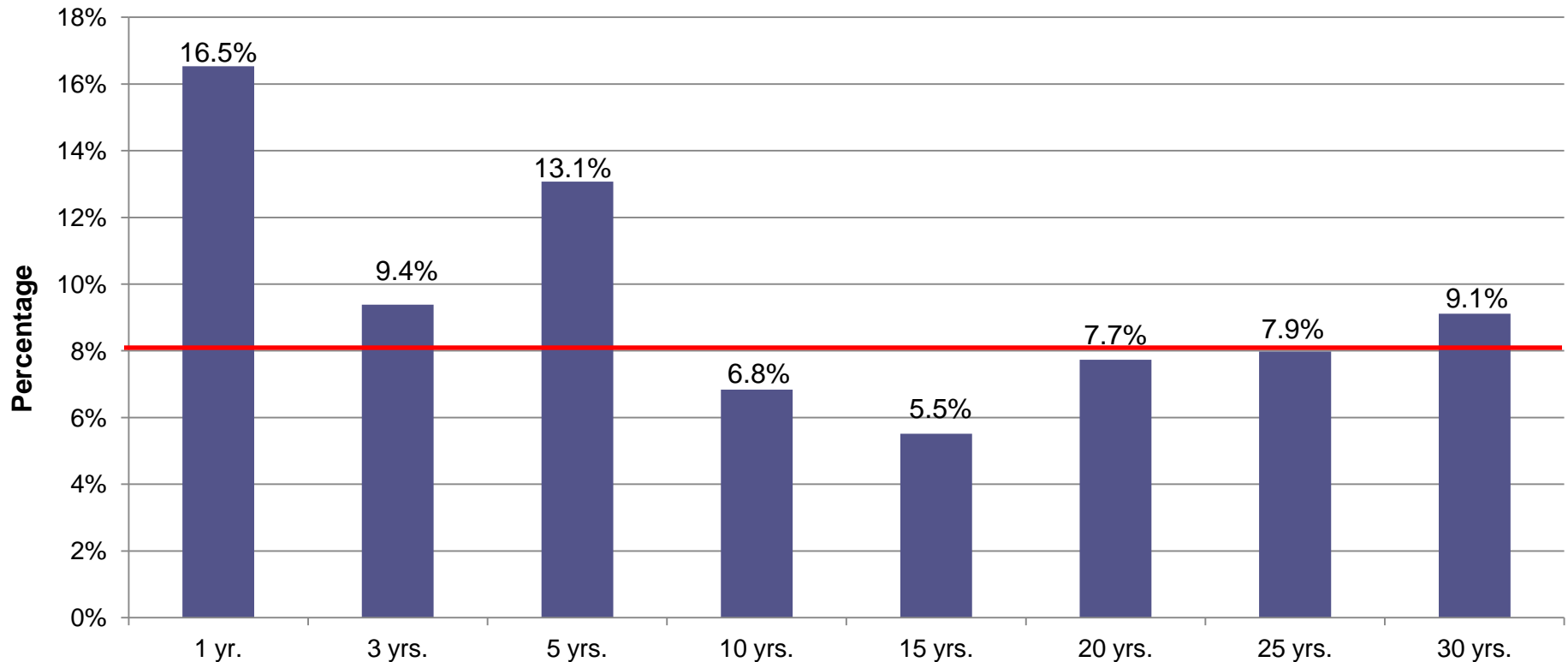


TFFR Net Investment Performance – Annual 1984-2014



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2014



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

Market Value of TFFR Assets 1984 - 2014



TFFR Funding



Retirement Funding Equation

$$C + I = B + E$$

- Contributions + Investments = Benefits + Expenses
- Not just for today, but for the long term.



2014 Valuation Report Summary

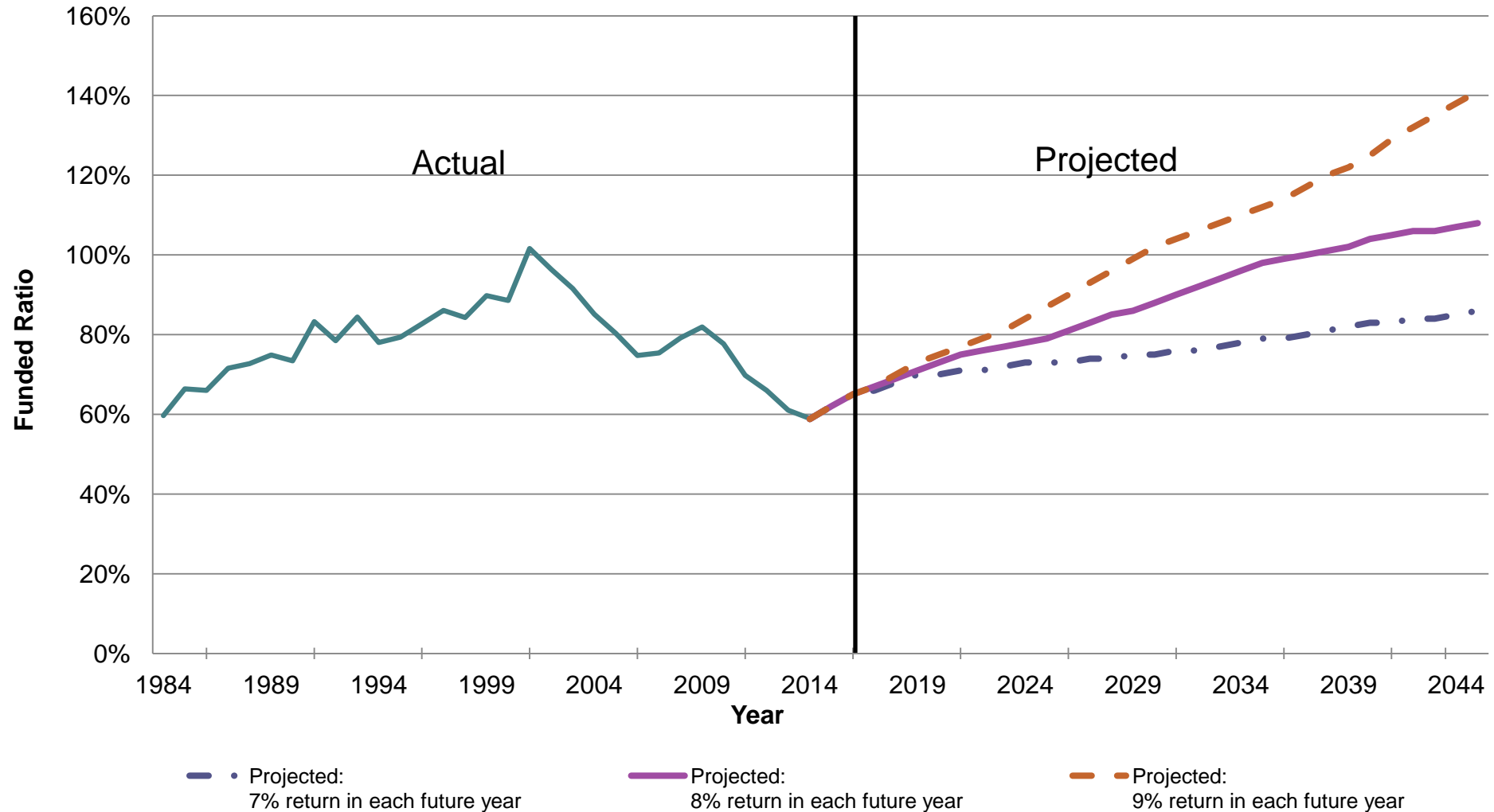
Actuarial Accrued Liability (AAL)	\$3.14 billion
Actuarial Value of Assets (AVA)	<u>- 1.94 billion</u>
Unfunded AAL (UAAL)	\$1.20 billion
AVA Funded Ratio	62%
Market Value of Assets (MVA)	\$2.09 billion
MVA Funded Ratio	67%

TFFR Funding Improvement Expected

- **With the approved 2011 legislative changes, funding recovery is expected to occur gradually over time.**
 - The significant investment losses experienced in 2008-09 have now been smoothed into actuarial calculations.
 - Final phase of contribution increases began flowing into the plan effective 7/1/14.
- **Time is needed for the changes made to show positive funding results. It will be a long, slow process.**
 - Actuarial projections show it will likely take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions, including the 8% investment return assumption.
 - If investment returns are greater than 8% over the long term and if TFFR reaches 100% funded level, employee and employer contribution rates will be reduced to 7.75% sooner than expected.
 - If investment returns are less than 8% over the long term, higher contribution rates will remain in effect, and funding progress will take longer.
 - While 2014 fiscal year was a very good year in the financial markets, the ongoing global market volatility make a long-term focus particularly important for pension plans like TFFR.

TFFR Funded Ratio (AVA)

Actual and Projected (based on 2014 valuation)



New GASB Accounting Standards



New GASB Standards

- Governmental Accounting Standards Board (GASB) recently approved two new standards that will change the accounting and financial reporting of public employee pensions by state and local governments.
- **Statement #67** provides for accounting with respect to governmental pension plans (NDTFFR).
 - Effective for plan year beginning 7/1/13 – 6/30/14
(June 30, 2014 financial statements)
- **Statement #68** establishes new accounting and financial reporting requirements for state and local governments (participating employers, school districts).
 - Effective for plan year beginning 7/1/14 – 6/30/15
(June 30, 2015 financial statements)

GASB Objectives

- **Financial Reporting Focus**

- ▣ GASB establishes accounting and financial reporting, not funding policies
- ▣ Focus is on pension obligation, changes in obligation, and attribution of expense

- **Employer-Employee Exchange**

- ▣ Employer incurs an obligation to its employees for pension benefits
- ▣ Transaction is in context of a career-long relationship

New GASB Standards

- Funding/contribution reporting requirements will be different than accounting/financial reporting requirements.
- Net pension liability (NPL) will be placed in footnotes of TFFR financial statements AND the employer's (school district) balance sheet. This will add a large and unstable element to an employer's net financial position.
- Each employer (school district) must disclose in their financial statements, their proportionate share of:
 - Net Pension Liability (NPL) - total pension liability minus market value of assets, calculated using a specific formula
 - Pension Expense – change in NPL each year with certain deferrals
 - Deferred outflows and deferred inflows of resources related to pensions – difference between expected and actual demographic and investment experience
- Each employer must also include other required supplementary information and expanded note disclosures, including plan assumptions and methods.
- To assist employers, GASB 68 actuarial and financial information and a template notes disclosure will be provided by the pension plans.

Net Pension Liability – Employer Proportionate Share

- Actuary calculated the Net Pension Liability (NPL) for TFFR which is \$1.05 billion as of 6/30/14.
- Proportionate share of NPL for each employer will be allocated based on total TFFR covered payroll for active members.
 - Total TFFR covered payroll for FY 14 was \$580 million.
- Proportionate share of covered payroll for each school district ranges from 0.001% to 11.0%.
 - Largest 5 school districts range from 6% to 11% (43% of total)
 - Next 8 school districts range from 1% to 3% (15% of total)
 - Majority of school districts have less than 1% (42% of total)

Net Pension Liability - June 30, 2014

Employer Proportionate Share Sample

	Covered Employee Payroll	Proportionate Share	Allocated NPL
Fargo Public Schools	\$63,192,777	10.894306%	\$114,153,013
Bismarck Public Schools	61,729,312	10.642008%	111,509,377
West Fargo School	43,479,882	7.495843%	78,543,146
Grand Forks School	41,737,522	7.195464%	75,395,706
Minot School	40,092,868	6.911929%	72,424,762
•	•	•	•
•	•	•	•
•	•	•	•
Hebron School	1,090,884	0.188066%	1,970,598
Wishek School	1,090,646	0.188025%	1,970,169
•	•	•	•
•	•	•	•
•	•	•	•
Horse Creek Elementary School	34,500	0.005948%	62,324
Bakker Elementary School	33,500	0.005775%	60,512
Earl Elementary School	<u>30,500</u>	<u>0.005258%</u>	<u>55,095</u>
Grand Totals	\$580,053,235	100.000000%	\$1,047,822,707

New GASB Standards

- Each employer (school district) is responsible for implementing the new pension reporting requirements in GASB 68. School districts will need to work with their accounting, financial, and audit specialists for assistance.
- This is a MAJOR change from previous pension reporting requirements, but there is NO change to plan funding requirements.
- The pension liability which must now be illustrated on school district financial statements is projected to decrease over future years.

New GASB Standards

- TFFR, PERS, and the State Auditor's Office have been working on a joint implementation and training plan with plan actuaries, auditors, and staff. Earlier this year we formed a working group of TFFR and PERS participating employers and auditors to assist in this effort.
- We are hosting a GASB 68 Employer and Auditor Training Session on December 11, 2014 in Bismarck for representatives of TFFR and PERS participating employers, auditors, and other interested stakeholders. Information will be presented describing the new standards, timing of implementation, actuarial/financial information to be provided by the plans, audit issues, and Q & A forum with TFFR, PERS, and State Auditor's Office representatives.
- We will all need to work together to understand and implement these new pension reporting requirements.

2015 Legislation

2015 Legislative Proposals

- **Bill No. 140**, submitted by the TFFR Board for interim study by the Legislative Employee Benefits Programs Committee, includes technical updates relating to Internal Revenue Code compliance. The changes have no actuarial effect on the plan.
- At this time, there are no other bills directly relating to TFFR being studied by interim legislative committees.

NDSBA Proposed Resolution

TFFR Information

TFFR website: www.nd.gov/rio

- Legislation
 - Links to ND Legislative website, bill drafts, actuarial analysis, testimony
- Presentations
 - Presentations made to member and employer groups
- Publications and Reports
 - Newsletters, handbook, brochures
 - Actuarial and audit reports
- Contact Information
 - Phone: 701-328-9885 or 1-800-952-2970
 - Email: fkopp@nd.gov or sschumacher@nd.gov